REPORT OF THE AUDITOR-GENERAL ON KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 24 to 52, which comprise the statement of financial position as at 30 June, 2019, statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Ferry Services Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with Kenya Ferry Services Limited Act, 2006 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Trade and Other Receivables

1.1 Long Outstanding Debts

As previously reported, the statement of financial position as at 30 June, 2019 reflects trade and other receivables balance of Kshs.480,995,000 which includes three (3) debtors owing amounts of Kshs.12,300,496, Kshs.50,652,633 and Kshs.27,500,000, all totalling to Kshs.90,453,129. The total amount of Kshs.90,453,129 has been outstanding since the financial year 2008/2009. Although Management has indicated that the debts are subject to court cases, no documentary evidence was provided to support the assertion. Further, the original debtors' statements were not availed for audit confirmation.

1.2 Staff Receivables

As disclosed in Note 20 to the financial statements, the trade and other receivables balance of Kshs.480,995,000 includes an amount of Kshs.6,817,000 in respect of staff receivables. Included in the latter balance is an amount of Kshs.3,220,000 which has been outstanding for more than five (5) years. No evidence of debt recovery was availed for audit review and Management has not provided explanations on how the former staff were cleared before settling their debts.

Consequently, it has not been possible to confirm the accuracy, completeness, validity and recoverability of trade and other receivables balance of Kshs.480,995,000 as at 30 June, 2019.

2. Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents balance of Kshs.201,515,000 which, as disclosed in Note 21 to the financial statements, comprised of Kshs.4,315,000, Kshs.10,000, Kshs.161,438,000 and Kshs.35,653,000 held in expenditure, special, development and collection accounts, respectively. However, the expenditure account balance of Kshs.4,315,000 was at variance with the bank reconciliation statement balance of Kshs.11,818,833, resulting to unreconciled variance of Kshs.7,503,833. In addition, stale cheques amounting to Kshs.243,997, some dating as far back as July, 2017, had not been replaced or written back in cash book as at 30 June, 2019. Further, the bank reconciliation statements reflected uncredited receipts of Kshs.10,046,703, out of which receipts totalling Kshs.7,676,013 relate to periods between July, 2017 and December, 2018.

In the circumstances, the accuracy, and completeness of cash and cash equivalents balance of Kshs.201,515,000 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ferry Services Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.1,362,875,000 and actual receipts of Kshs.1,364,525,000, resulting to net under funding of Kshs.1,650,000. Similarly, the statement reflects an expenditure budget of Kshs.1,265,771,000 against actual expenditure of Kshs.1,295,563,000, resulting to over-expenditure of Kshs.29,791,000. However, no evidence was provided to indicate that the over-expenditure or reallocations was approved as required by Section 48 (5) of the Public Finance Management (National Government) Regulations, 2015 which requires reallocations to be approved by the respective Accounting Officer of the entity.

Management was in breach of the law to this extent.

Other Information

The Directors are responsible for the other information, which comprises the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Report of the Directors and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources has not been applied lawfully and in an effective way.

Basis for Conclusion

1. Property, Plant and Equipment

1.1 Idle Assets

As previously reported, Management procured and installed weigh bridges on both sides of the Likoni channel in the year 2015/2016 at a cost of Kshs.26,779,893 as indicated in the assets register. Although the weigh bridges were integrated with the revenue system, they are practically idle assets since the Kenya Ferry Services Limited does not use them to charge for use of its ferries by motor vehicles. Further, Management indicated that the weigh bridges were a control measure to enhance safety by estimating the weight of motor vehicles boarding ferries at the channel. However, there was no evidence showing that the weights of motor vehicles measured through the weigh bridges are used to control the number of motor vehicles that board the ferries.

Consequently, it has not been possible to confirm the propriety and value for money from expenditure totaling Kshs.26,779,893 incurred on the installation of weigh-bridges.

1.2 Construction and Delivery of Two New Ferries

As previously reported, the Kenya Ferry Services Limited awarded a contract for supply and delivery of two new passenger ferries at a cost of Kshs.1,863,000,000 (US $18,630,000). A down payment of Kshs.598,023,000 (US $5,920,726.7) was paid to the local appointed Agent in August, 2015. According to the contract, signed on 27 June, 2015, the new ferries were to be delivered after seventeen (17) months. However, available information indicated that the first ferry was delivered in July, 2017 while the second ferry was delivered on 25 April, 2020, a delay of about five (5) years. Further, according to the supplier confirmation of 15 January 2020, the Kenya Ferry Services Limited had already paid US$19,695,141.56 (equivalent of Kshs.1,519,379,614) and that the Company still owed the contractor US$2,391,423.08 (Kshs.239,501,021.46) as at the same date.

In light of the foregoing, and as a result of the undue delay, it has not been possible to confirm value for money for the building and supply of two new ferries at cost of Kshs.1,863,000,000 and propriety of expenditure totaling Kshs.1,519,379,614 paid to the contractor as at 30 June, 2019.

2. Non- Submission of Statutory Deductions

As disclosed in Note 22 to the financial statements, included in the trade and other payables of Kshs.184,853,000 is an amount of Kshs.146,660,000 in respect of trade creditors. The latter balance includes an amount of Kshs.17,681,447 owed to the Kenya Revenue Authority. Management has not provided explanations for failure to remit the statutory deductions as required by the Income Tax Act, Cap 470. The unremitted amounts attracts interest and penalties.

Management is in breach of the law to this extent.

3. Signing of the Financial Statements

The financial statements for the year ended 30 June, 2019 availed for audit review lacked the Board Chairman's signature. Management efforts to get the signature were fruitless as evidenced by the letter written to the Principal Secretary, State Department of Transport, Infrastructure, Housing and Urban Development dated 25 March, 2020 requesting for the signing of attached financial statements following revocation of the appointment of the Chairman of the Board and four (4) Directors vide Kenya Gazette, Vol. No.139 and Gazette No.9822, dated 16 October, 2019 which were issued on 17 October, 2019. As at the time of reporting on 8 April, 2020, response to the letter and duly signed accounts had not been received.

Consequently, the financial statements do not comply with International Public Sector Accounting Standards as prescribed by the Public Sector Accounting Standards Board.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Revenue

1.1. Delayed Banking

The statement of comprehensive income reflects total revenue of Kshs.1,364,525,000 for the year ended 30 June, 2019 which includes an amount of Kshs.565,875,000 in respect of income from operations. Records availed for audit review indicated that during the year under review, the Kenya Ferry Services Limited contracted a firm to provide toll collection and cash-in-transit services for daily toll collections and banking of the revenue into the Kenya Ferry Service's Collection Account. However, review of sampled cash receipts and bank deposit slips for the months of April, May and June 2019 revealed delayed banking of Kshs.70,475,595 by between 2-6 days. This is contrary to Section 5.5.1 of the Kenya Ferry Finance Manual which requires the finance manager to ensure prompt banking of all cash or cheque received within 24 hours of receipt. Further, clause 4 of the contract agreement between the Kenya Ferry Services and the collection firm requires delivery to the bank to be done in the morning following the collection of the revenue. Delayed banking may result to misappropriation of funds.

1.2. Income from Operations – Weigh Bridges

Included in the income from operations of Kshs.565,875,000, as disclosed in Note 2 to the financial statements, is an amount of Kshs.549,473,000, being toll collections charged to motorists who are ferried across the Likoni channel. An inspection revealed that, although the weigh bridges were integrated with the revenue system on both sides of the channel, they were not in use as the Kenya Ferry Services Limited does not use weight to charge for use of ferry by motor vehicles.

The loaded motor vehicles are charged at different rates from empty ones. However, the toll collectors rely on information provided by drivers regarding the state of load in the motor vehicles. Therefore, there was no evidence that all motor vehicles carrying cargo are inspected to confirm the state of load carriage before payment is made.
The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on the audit, that:

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;

(ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;

(iii) The Company's statement of financial position and statement of comprehensive income are in agreement with books of account; and

(iv) In my opinion the information given in the report of the Directors is consistent with the financial statements.

Responsibilities of the Management and those Charged with Governance

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, the Management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Company or to cease operations.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Directors are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of the Management's` use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Kenya Ferry Services Limited to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide the Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
<u>AUDITOR-GENERAL</u>

Nairobi

19 July, 2021